

## Internal Revenue Service

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Department of the Treasury  
Washington, DC 20224

Third Party Communication: None  
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Date:  
December 04, 2007

### LEGEND:

Parent =

Sub A =

Sub B =

Sub C =

Sub D =

a =

b =

c =

d =

e =

f =

Dear :

This letter responds to your October 26, 2007 request for rulings on certain federal income tax consequences of a proposed transaction. The information submitted in that request and subsequent correspondence is summarized below.

The rulings contained in this letter are based on facts and representations submitted by the taxpayers and accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any materials submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

### **Summary of Facts and Proposed Transaction**

Parent is a publicly traded corporation and the common parent of an affiliated group of corporations that files a consolidated Federal income tax return on a calendar year basis. Parent owns, directly and indirectly, all of the Sub A common stock and all of one class of Sub A preferred stock, which together represent a percent of the vote and b percent of the value of the Sub A stock. Sub A owns all of the Sub B common stock. Parent and Sub A own, directly and indirectly, all of the Sub B preferred stock. Parent and Sub B own c percent and d percent, respectively, of the Sub C common stock. Parent and Sub D own e percent and f percent, respectively, of the Sub C preferred stock. Sub C owns all of the Sub D stock.

To reduce the complexity of the current corporate structure and for other business reasons, Sub C plans to redeem the d percent of the Sub C common stock held by Sub B in exchange solely for cash (the "Redemption Proceeds") approximately equal to the fair market value of the redeemed stock (the "Redemption").

### **Representations**

The following representations have been made in connection with the Redemption:

(a) No notes or other obligations of Sub C will be distributed to Sub B in connection with the Redemption.

(b) No part of the Redemption Proceeds from Sub C will be received, directly or indirectly, by Sub B as a creditor, employee, or in any capacity other than as a redeemed shareholder.

(c) No shareholder of Sub C has been or will be obligated to purchase any of the stock redeemed.

(d) The Redemption is an isolated transaction and is not related to any other past or future transaction.

(e) Sub C has no plan or intention to issue, redeem, or exchange additional shares of its stock.

(f) None of the stock to be redeemed is "§ 306 stock" within the meaning of § 306.

(g) At the time of the Redemption, there will be no declared but unpaid dividends, or funds set aside for dividends, on any of the stock to be redeemed.

(h) There is no plan or intention to completely liquidate Sub C.

(i) At the time of the Redemption, there will be no plan or intention for Sub A to sell or otherwise dispose of Sub B common stock.

(j) At the time of the Redemption, there will be no plan or intention for Parent to sell or otherwise dispose of the Sub A stock.

(k) At the time of the Redemption, the Redemption Proceeds will be approximately equal to the fair market value of the Sub C stock exchanged therefor.

(l) There are no outstanding warrants or options to purchase Sub C stock, nor are there any outstanding debentures or other obligations that are convertible into Sub C stock or would be considered Sub C stock.

(m) There have been no redemptions, issuances, or exchanges by Sub C of any of its stock in the past five years.

(n) Sub C is not a personal holding company within the meaning of § 542.

### **Rulings**

Based solely on the information submitted and the representations set forth above, we rule as follows:

- (1) The Redemption will be treated as a distribution of property to which § 301 applies (the "Distribution") (§§ 301 and 302(d)).
- (2) The Distribution will be excluded from gross income and the Redemption Proceeds will reduce Sub B's basis in the Sub C stock (such resulting basis hereafter the "Post Redemption Basis") (§ 1.1502-13(f)(2) and § 1.1502-32).
- (3) Sub B's Post Redemption Basis will shift to Parent's Sub C stock. If the Post Redemption Basis is a positive amount, the Parent's basis in its Sub C stock will increase; if the Post Redemption Basis creates or increases an excess loss account ("ELA"), the Parent's basis in its Sub C stock will decrease accordingly (§ 1.302-2(c)).
- (4) Under § 1.1502-32, (i) if the Post-Redemption Basis is positive, each of Sub A's basis in its Sub B stock and Parent's basis in its Sub A stock will decrease by the amount of the Post-Redemption Basis, or (ii) if the Post-Redemption Basis is negative, each of Sub A's basis in its Sub B stock and Parent's basis in its Sub A stock will increase by the amount of the ELA represented by the Post-Redemption Basis. Allocations of the investment adjustments between the common and preferred stock of Sub B will be made in accordance with § 1.1502-32(c).
- (5) Because basis adjustments are required under §§ 1.302-2 and 1.1502-32, no basis reduction will be required under § 1059.
- (6) The Redemption will not cause Sub B to recognize gain on its Sub C stock or take into account as income or gain its excess loss account, if any, in its Sub C stock (§§1.1502-19(a)(2)(ii), 1.1502-19(a)(3)).

### **Caveats**

No opinion is expressed or implied about the tax treatment of the Redemption under other provisions of the Code or regulations or the tax treatment of any conditions existing at the time of, or effects resulting from, the Redemption that are not expressly covered by the above rulings.

The ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent. Each taxpayer involved in this transaction should attach a copy of this ruling letter to the taxpayer's federal income tax return for the taxable year in which the transaction is completed. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

In accordance with the power of attorney on file in this office, a copy of this ruling letter will be sent to your authorized representative.

Sincerely,

*Lewis K Brickates*

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Lewis K Brickates  
Branch Chief, Branch 4  
Office of Associate Chief Counsel  
(Corporate)